

February 11, 2002

**TO:** Senator Sid Snyder, Chair  
Senator Dan McDonald  
Representative Jack Cairnes  
Representative Jeff Gombosky  
Marty Brown, OFM, Director  
Will Rice, DOR, Acting Director

**FROM:** Chang Mook Sohn, Executive Director  
Office of the Forecast Council

**SUBJECT:** FEBRUARY 10, 2002 REVENUE COLLECTION REPORT

General Fund-State receipts were very weak in the January 11 – February 10, 2002 collection period. Receipts for the month were \$62.6 million less than expected. Collections had been tracking above the forecast the last two months, however, with this month's shortfall collections are now \$18.8 million less than expected in the three months since the November forecast. This understates the underlying weakness in economic and revenue growth. The \$18.8 million cumulative shortfall would have been much larger had not we received an extraordinary large estate tax payment last month. Revenue Act (sales, business and occupation, use and public utility taxes) taxes, which are most closely tied to economic activity, accounted for most of this month's shortfall. Revenue Act taxes were \$59.6 million below the estimate for the month and are \$40.4 million (1.9 percent) less than expected in the three months since the November forecast. While the U.S. economy appears to be bottoming out and on the verge of recovery, the State's economy continues to weaken. The state is believed to have lost 65,000 jobs in calendar year 2001. This is much higher than was assumed in the November forecast and does not include the aerospace jobs that will be eliminated in 2002.

After increasing a little the last two months (up 0.4 percent in October and 1.7 percent in November), Revenue Act receipts plunged in the January 11 - February 10, 2002 collection period. Receipts were 7.2 percent below last year's level, adjusted for special factors. Collections this period primarily reflect December 2001 business activity of monthly taxpayers, October through December activity of quarterly filers, and calendar year 2001 business of annual taxpayers. The drop this month exceeds September's 7.0 percent decline. The tragedy of September 11<sup>th</sup> and its immediate aftermath accounts for the huge drop in September. December's plunge appears to be due to a much weaker economy. Receipts are now 2.4 percent below the year-ago level for the first six months of fiscal 2002. The sharp decline in December is both disappointing and worrisome. It indicates that while the U.S. economy has improved, Washington's has not. Indeed, there is little chance for improvement in the near term. Employment is likely to continue to fall and revenue growth is unlikely to improve and could get worse. Auto sales were very strong for most of the fourth quarter, as was aircraft production. Both added to growth in the

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fourth quarter. The payback for the surge in auto sales in the last three months will likely reduce revenue growth in the first quarter. The double-digit cut in aircraft production that will occur next year is likely to be a drag on revenue growth for a year or more.

Preliminary data on taxes paid during the January 11 - February 10 collection period shows weak growth in most sectors of the economy. The retail trade sector again was the exception with tax payments up a modest 3.0 percent based on preliminary data. This was again due to strong auto sales (up 13 percent). The building materials and hardware sector reported a 6 percent increase and general merchandise and food stores reported weak, but positive, growth: a 2.1 percent gain for food stores and a 1.4 percent gain for general merchandise stores. Other retailing sectors reported no growth or declines in tax payments. Non retailing sectors, which account for about half of Revenue Act tax payments reported a 10.8 percent year-over-year decline in tax payments. Both October and November also saw declines in non-retailing sectors but the magnitude last month was much worse. All major non retailing sectors reported declines with the largest reported by the construction sector (-21.7 percent), the wholesaling sector (-14.9 percent) and the manufacturing sector (-10.3 percent).

Non Revenue Act General Fund taxes collected by the Department of Revenue were \$2.8 million below the forecast in January. Weaker than expected estate tax and real estate excise tax payments, more than offset a little better than expected cigarette, liquor taxes and property tax receipts. Cumulatively, Non Revenue Act taxes are \$21.6 million above the forecast. Estate tax payments account for \$13.4 million of this total. Most of this is due to an unusually large estate tax payment last month.

Real estate excise tax payments in January (reflecting closings in December) were again below the year-ago level statewide. December's real estate activity was down 6.1 percent from the year-ago level. This follows declines of 7.4 percent in November and 5.9 percent in October. For calendar 2001 statewide taxable real estate excise activity was up 0.8 percent from calendar 2000. Most of the weakness remains in King County. Taxable real estate activity in King County declined 11.8 percent in December after falling 21.5 percent in November. For the year, King County is down 9.8 percent while the rest of the state is up 9.9 percent.

Department of Licensing General Fund collections were \$99,000 less than anticipated. Cumulatively, Department of Licensing General Fund receipts are \$107,000 above the forecast.

The attached Table 1 provides a comparison of collections with the November forecast for the January 11 - February 10, 2002 collection period. Table 2 compares revised collection figures to the preliminary numbers reported in last month's collection report.

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Attachments

**TABLE 1**  
**Revenue Collection Report**  
**February 10, 2002 Collections Compared to the November 2001 Forecast**  
**Thousands of Dollars**

<u>Period/Source</u>	<u>Estimate*</u>	<u>Actual</u>	<u>Amount</u>	<u>Difference</u> <u>Percent</u>
<b>January 11 - February 10, 2002</b>				
Department of Revenue-Total	\$997,883	\$935,429	(\$62,455)	-6.3%
Revenue Act** (1)	925,096	865,469	(59,627)	-6.4%
Non-Revenue Act(2)	72,787	69,960	(2,828)	-3.9%
Liquor Sales/Liter	10,731	10,805	75	0.7%
Cigarette	3,628	3,835	206	5.7%
Property (State School Levy)	9,342	11,015	1,672	17.9%
Estate	7,903	4,888	(3,015)	-38.2%
Real Estate Excise	32,367	31,148	(1,219)	-3.8%
Timber (state share)	0	0	0	NA
Other	8,816	8,269	(547)	-6.2%
Department of Licensing (2)	648	549	(99)	-15.3%
Lottery (5)	0	0	0	NA
<b>Total General Fund-State***</b>	<b>\$998,532</b>	<b>\$935,978</b>	<b>(\$62,554)</b>	<b>-6.3%</b>
<b>Cumulative Variance Since the November Forecast (November 11 - February 10, 2002)</b>				
Department of Revenue-Total	\$2,966,561	2,947,639	(18,922)	-0.6%
Revenue Act** (3)	2,167,699	2,127,324	(40,375)	-1.9%
Non-Revenue Act(4)	798,863	820,315	21,452	2.7%
Liquor Sales/Liter	25,336	25,963	627	2.5%
Cigarette	14,640	15,614	974	6.7%
Property (State School Levy)	598,474	607,237	8,764	1.5%
Estate	22,658	36,107	13,449	59.4%
Real Estate Excise	94,331	89,734	(4,597)	-4.9%
Timber (state share)	2,787	3,134	348	NA
Other	40,637	42,525	1,888	4.6%
Department of Licensing (4)	1,735	1,849	114	6.6%
Lottery (5)	0	0	0	NA
<b>Total General Fund-State***</b>	<b>\$2,968,296</b>	<b>\$2,949,488</b>	<b>(\$18,808)</b>	<b>-0.6%</b>

1 Collections January 11 - February 10, 2002. Collections primarily reflect December 2001 activity of monthly taxpayers, Oct.-Dec. activity of quarterly files and calendar 2001 activity of annual taxpayers.

2 January 1-31, 2002 collections.

3 Cumulative collections, estimates and variance since the November 2001 forecast; (November 11-February 10, 2002) and revisions to history.

4 Cumulative collections, estimates and variance since the November 2001 forecast;(November 2001 - January 2002) and revisions to history.

\* Based on the November 2001 economic and revenue forecast.

\*\*The Revenue Act consists of the retail sales, B&O, use, public utility, tobacco products taxes, and penalty and interest.

\*\*\* Detail may not add due to rounding. The General Fund-State total in this report includes only collections from larger state agencies: the Department of Revenue and the Department of Licensing.

**TABLE 2**  
**January 10, 2002 Collection Report - Revised Data**  
**Thousands of Dollars**

<u>Period/Source</u>	<u>Collections</u>		<u>Difference</u>	
	<u>Preliminary</u>	<u>Revised</u>	<u>Amount</u>	<u>Percent</u>
<b>December 11 - January 10, 2002</b>				
Department of Revenue-Total	\$972,936	\$972,936	(\$0)	-0.0%
Revenue Act (1)	646,474	646,474	0	0.0%
Non-Revenue Act(2)	326,462	326,462	(0)	-0.0%
Liquor Sales/Liter	7,782	7,782	0	0.0%
Cigarette	5,292	5,292	0	0.0%
Property (State School Levy)-net	257,520	257,520	(0)	-0.0%
Property tax collections	257,520	257,520	(0)	-0.0%
transfer to the Student Achievement Acct.	0	0	0	ERR
Estate	24,051	24,051	(0)	-0.0%
Real Estate Excise	26,792	26,792	(0)	-0.0%
Timber (state share)	0	0	0	NA
Other	5,025	5,025	(0)	-0.0%
Department of Licensing (2)	640	640	(0)	-0.0%
Lottery (2)	0	0	0	NA
Total General Fund-State***	\$973,576	\$973,576	(\$0)	-0.0%

**Cumulative Receipts: November 11 - January 10, 2002 & Revisions to History**

Department of Revenue-Total	2,012,210	\$2,012,210	\$0	0.0%
Revenue Act (3)	1,261,855	1,261,855	0	0.0%
Non-Revenue Act(4)	750,355	750,355	0	0.0%
Liquor Sales/Liter	15,158	15,158	(0)	-0.0%
Cigarette	11,779	11,779	0	0.0%
Property (State School Levy)-net after transfer	596,223	596,223	(0)	-0.0%
Property tax collections	596,223	596,223	(0)	-0.0%
transfer to the Student Achievement Acct.	0	0	0	NA
Estate	31,219	31,219	0	0.0%
Real Estate Excise	58,586	58,586	0	0.0%
Timber (state share)	3,134	3,134	0	NA
Other	34,256	34,256	(0)	-0.0%
Department of Licensing (4)	1,300	1,300	(0)	-0.0%
Lottery (4)	0	0	0	NA
<b>Total General Fund-State***</b>	<b>\$2,013,510</b>	<b>\$2,013,510</b>	<b>\$0</b>	<b>0.0%</b>

P-Preliminary. Reported in the January 10, 2002 collection report.

R Revised data.

1 Collections December 11 - January 10, 2002. Collections primarily reflect November 2001 business activity of monthly taxpayers.

2 December 1-31, 2001 collections.

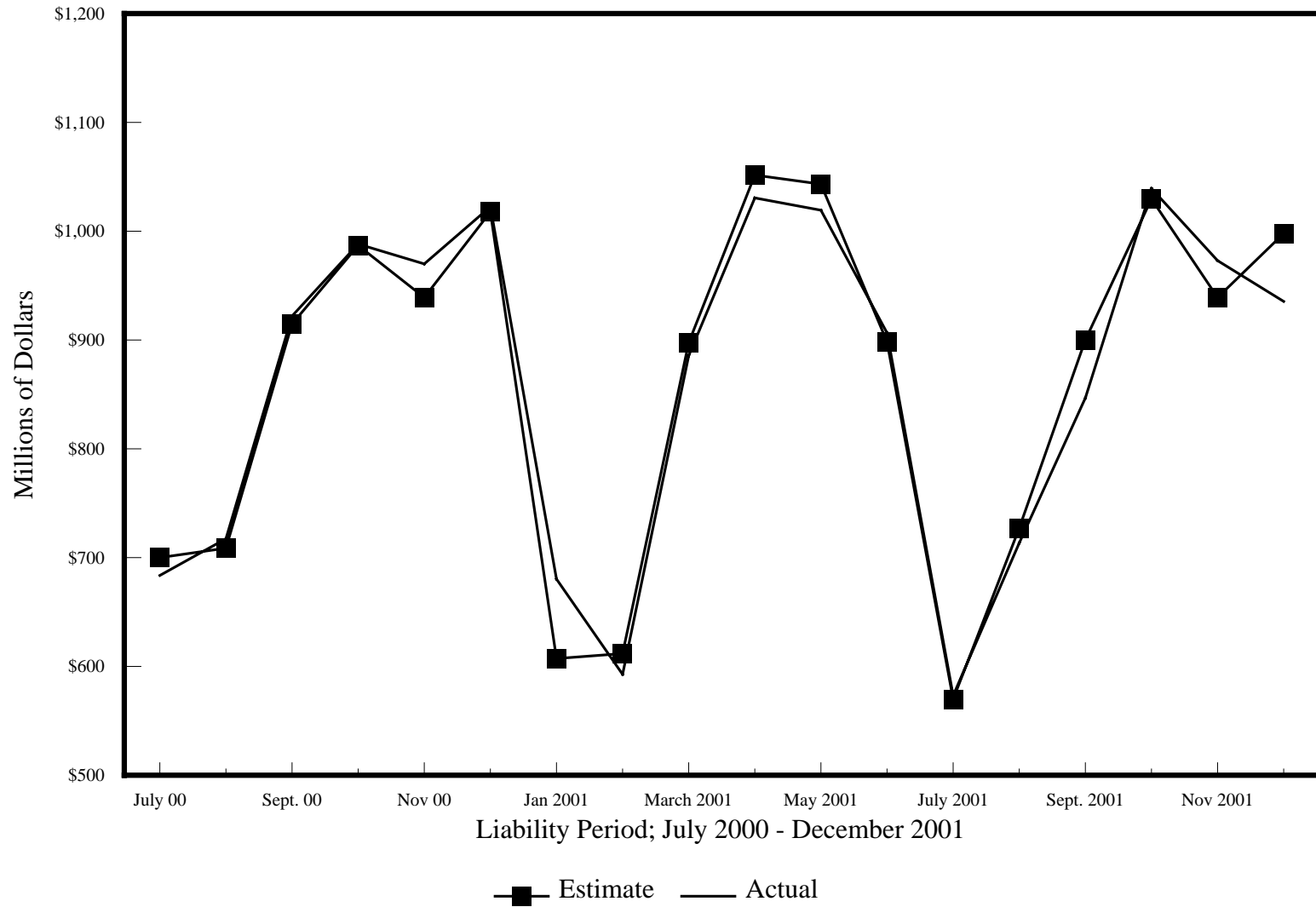
3 Cumulative variance for since the November 2001 forecast: November 11 - January 10, 2002 & revisions to history.

4 Cumulative variance: since the November 2001 forecast (November 2001 & December ) & revisions to history.

\* Revenue consists of the retail sales, B&O, use, public utility and tobacco products taxes, and penalty and interest payments for these taxes.

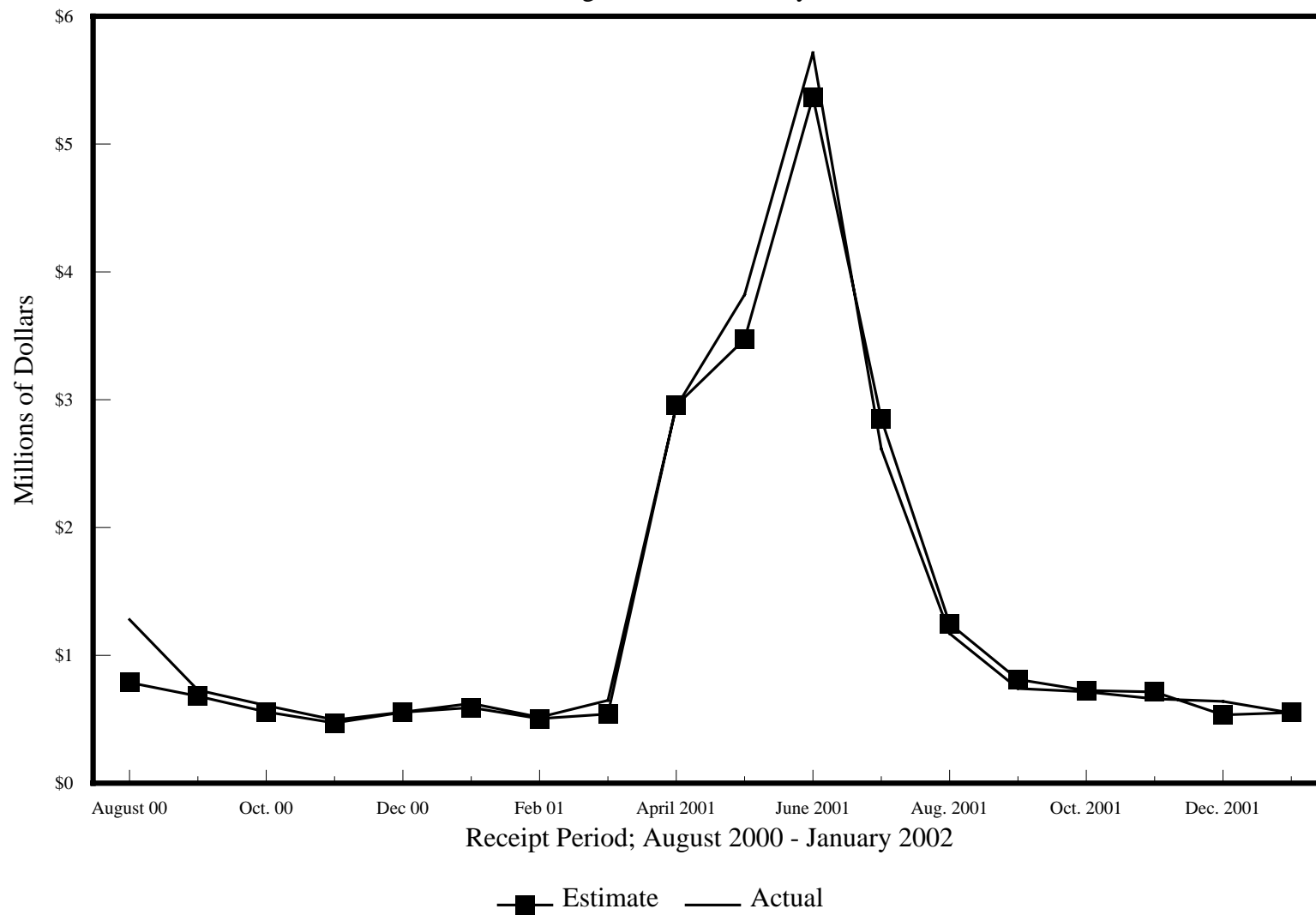
# Department of Revenue: General Fund-State, Actual vs. Estimate

July 2000 to December 2001



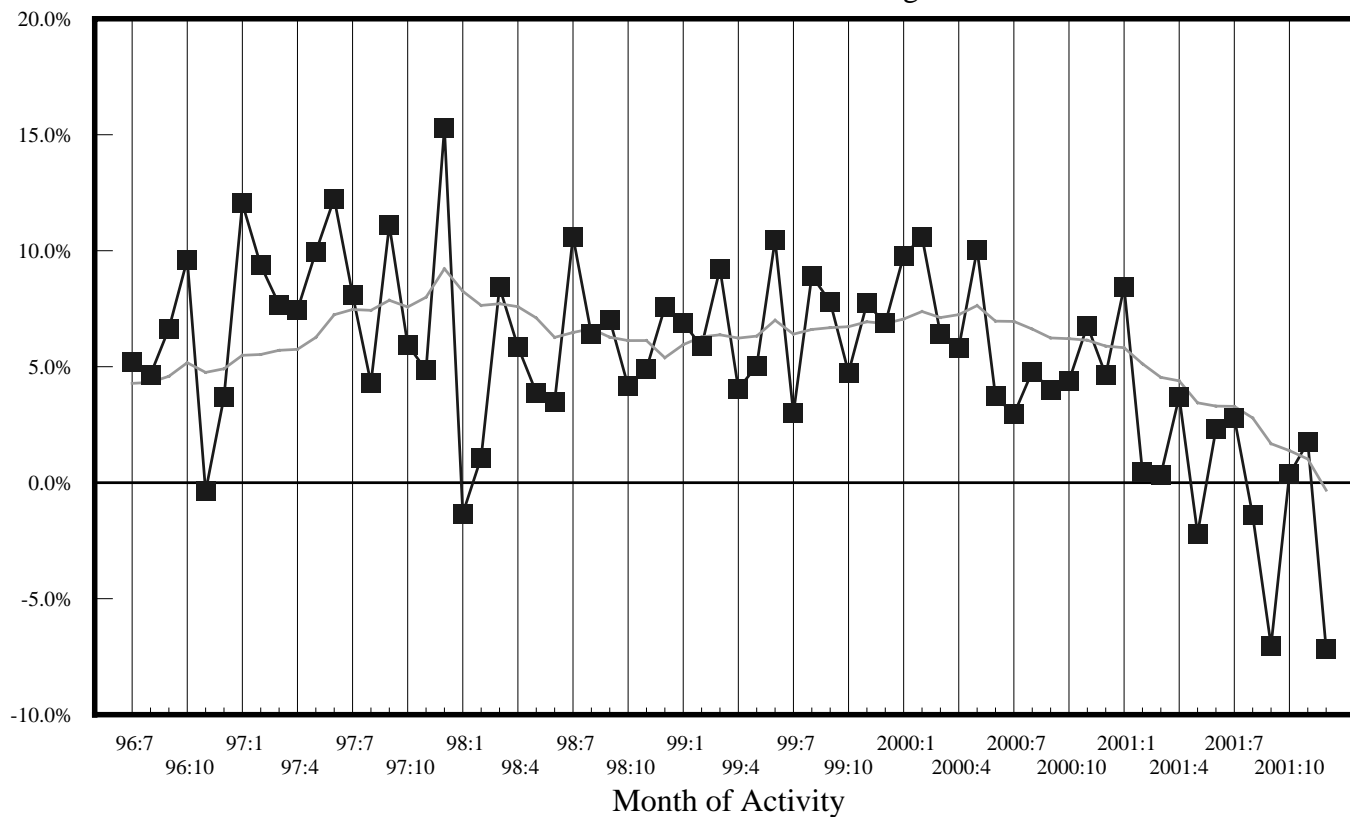
# Department of Licensing General Fund-State, Actual vs. Estimate

August 2000 to January 2002



# Revenue Act Net Collections\*

Year-over-Year Percent Change



■ %CH from year-ago month

— %change: 12 month moving average

\*- adjusted for special factors, primarily large assessment payments or credits/refunds.